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E.O. 12958: N/A
TAGS: ECON ELAB EFIN PINR PGOV MX
SUBJECT: President Calderon's Economic Development
Strategy for Mexico

Summary

¶1. (U) The pillar of President CalderonQs economic development strategy for Mexico is to preserve macro-economic stability in order to prevent a return to economic crises that periodically devastated Mexico during the 1980Qs and 1990Qs. While the economic stability Mexico has enjoyed since 2001 has put Mexico on a path of average long-term real GDP growth of around 3 to 4 percent, the OECD, World Bank and other analysts believe MexicoQs economy must achieve sustained annual GDP growth of at least 6 to 8 percent in order to reduce widespread poverty. Calderon has declared that fighting poverty is the top economic goal of his Administration. He has repeatedly stressed his dedication to creating well paying jobs in Mexico as a solution to poverty, and Mexican immigration to the United States. His means to create jobs include further opening Mexico to trade and investment, record spending to develop infrastructure, increased spending on social programs, eliminating unnecessary government regulation, and seeking reforms to MexicoQs moribund internal economy. While Calderon has achieved more economic reforms in 18 months than his predecessor President Fox did in six years, his lack of a congressional majority, and the lack of wide consensus within Mexico on basic economic policy, have so far prevented him from undertaking the serious structural reforms needed to achieve higher growth rates. Faced with strong special interests that have long blocked such reforms, Calderon has chosen a pragmatic approach of pushing a steady series of politically achievable reforms.

These reforms have addressed the most immediate challenges to macroeconomic stability, while chipping away at some of the barriers preventing MexicoQs economy from creating sufficient decently paying jobs. Given U.S. strategic interests in economic development in Mexico, the U.S. Mission has a range of programs to support Mexican development efforts. End Summary.

Macro-economic Stability QThe Pillar for Economic Development
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¶2. (U) The pillar of President CalderonQs economic development strategy is to preserve the macro-economic stability Mexico has enjoyed since 2002. This is understandable because periodic economic and banking crises in the 1980Qs and 1990Qs wiped out the savings and cost the jobs of many Mexicans, and pushed members of the working class into poverty. The World Bank, IMF, OECD and other financial institutions widely praise the sound economic policies that have kept MexicoQs economy stable since 2002. Calderon has continued those policies. As the Chief of CalderonQs Economic Cabinet, Felipe Duarte, told a public academic/business forum in February 2008, the Calderon Administration has strengthened public finances via fiscal and pension reform, its commitment to maintain fiscal discipline, and efforts to improve the countryQs debt profile. The government continues to operate with only a small budget deficit. Under President Calderon, inflation remains at a reasonable 4% annual rate, and wage increases and interest rates are carefully managed to keep inflationary pressures in check.

¶3. (U) President FoxQs and CalderonQs efforts to preserve macro-economic stability have been key to promoting development in Mexico. Rising foreign investment shows that that investors and financial institutions have faith that Mexico will continue to pursue policies to keep inflation and budget deficits in check. A concrete display of international confidence in MexicoQs economy occurred in late 2006 when Mexico became the first country in Latin America to launch a 30-year bond denominated in the local currency (pesos). The bond was oversubscribed by six times. CalderonQs and FoxQs policies have attracted record levels of foreign investment and allowed the development of a mortgage industry including 30-year peso-denominated fixed rate mortgages. Thanks to macro-economic stability and specific efforts under the Fox and Calderon Administrations to improve housing and credit to the private sector, more and more Mexicans are enjoying the first-ever opportunity to own their own homes. Between 2001 and 2006, accumulated investment from mortgages was USD 78 billion, equivalent to over 4.3 million mortgages financed by various lending institutions. In 2007 alone, lenders expect to grant about 1.1 million mortgages.

National Development Plan

¶4. (U) Prior to assuming office, Calderon held a series of meetings throughout Mexico to present his vision for MexicoQs future, the Q2030 Vision,Q under which by that year Mexico would become one of the five largest economies in the world with a per capita GDP of USD 30,000. Calderon said his purpose in presenting this 2030 Vision was to demonstrate that reducing widespread poverty and improving the Mexican education system would take reform over a generation.

¶5. (U) To demonstrate how he would advance toward that vision during his term, in May 2007 Calderon unveiled a National Development Plan for 2007-2012 for social and

economic development. The main pillars of CalderonQs plan are: rule of law and public security (e.g. fighting drug trafficking, reducing corruption, justice reform, police reform, electoral and other political reforms); equal opportunities for all; economic growth and competitiveness; environmental sustainability; and effective democracy and responsible foreign policy. Under this plan, the government aims to achieve real GDP growth of 5% and to reduce food-based poverty by 30% by 2012. (Comment: Food-based poverty is based on an estimate of the income required to purchase a food basket satisfying minimum nutritional requirements. The overall poverty figure considers estimated income required to satisfy minimum requirements for nutrition, education, health services, housing, clothing and transport. End Comment)

¶6. (U) To implement his development strategy, the Calderon Administration has boosted funding for development-related initiatives. Spending on the government-defined category of Qsocial developmentQ is set to increase by 8.8% in real terms in the 2008 federal budget, while spending on Qeconomic developmentQ is set to increase 13.6%. The Secretariat of Social Development received one of the

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largest budget hikes this fiscal year (37.8%).

Poverty Reduction the Top Priority

¶7. (U) Even prior to assuming office, Calderon made sure his economic team consistently conveyed the message that CalderonQs top economic priority was reducing poverty. The July 2006 Presidential elections threw a spotlight on persistent poverty and rising inequality in Mexico -- particularly between economic progress in northern Mexico and stagnation in southern Mexico. Shortly after taking office in December 2006, Calderon publicly said fighting poverty was the top economic priority, noting that Qif something demands urgent action and all the power of the Mexican state, it is taking care of millions of families who still live in poverty.Q Poverty rates have declined, but according to Mexican government statistics as of 2006, 42.6% of the population still lives in poverty, while 13.8% of the population lives in Qfood-based poverty.Q Calderon has been clear that maintaining macroeconomic stability is a basic requirement of fighting poverty, but repeatedly stresses the need to do more, especially by creating decently paying jobs in Mexico.

¶8. (U) Finance Secretary Carstens is a key voice publicly explaining CalderonQs development strategy. Carstens has often said publicly that stability and economic growth are necessary conditions for poverty reduction, but policies are also needed to help the poor improve their living standards. Carstens echoes CalderonQs stress on having a market economy generate jobs, publicly emphasizing that governments cannot increase growth and reduce poverty by themselves, because such progress comes from development of the Qsociety,Q including Qthe person with the most modest job.Q Carstens and Calderon have said the Administration will put emphasis on programs that develop human capital in order to make Mexico more competitive and to meet CalderonQs stated goal of increasing per capita income to USD 30,000 by 2030. (Note: MexicoQs per capita GDP was USD 8,300 in 2007, although Mexico has the highest income inequality in the OECD.) Carstens also joins Calderon in publicly highlighting the need to make social programs more efficient and productive so they create sustainable jobs that allow participants to QgraduateQ from the programs to a better life.

Creating Jobs by Further Opening to Trade and Investment

¶9. (U) Calderon has continued the policy of Mexican leaders since the early 1990Qs of creating jobs in Mexico through further opening Mexico to trade and foreign investment. Thanks in large part to opportunities created by the North American Free Trade Agreement (NAFTA), foreign direct investment in 2007 reached a record level of USD 23.2 billion. (Comment: The second highest amount ever recorded, surpassed only in 2001 when Citibank acquired Mexican Bank Banamex for USD 12.5 billion, skewing FDI figures for that year. End Comment) In March 2008, Secretary of the Economy Eduardo Sojo reminded the Mexican

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public that prior to NAFTA, MexicoQs yearly inflow of foreign direct investment was only USD 3.7 billion.

¶10. (U) Mexico currently has 13 bilateral and multilateral regional free trade agreements covering 43 countries. President CalderonQs new initiative has been to make these free trade agreements more efficient by reducing inconsistencies among them that increase business costs and opportunities for corruption. Recognizing that the U.S. domestic debate on free trade makes it difficult for the United States to consider further harmonizing free trade agreements, Calderon has had his government take unilateral measures, including lowering tariff rates, harmonizing trading rules, and eliminating procedural barriers to trade. The Calderon Administration is also actively pressing its other trading partners to harmonize tariff rates, rules of origin, and other trading rules in their respective free trade agreements with Mexico.

¶11. (U) On June 13, 2007, Calderon created ProMexico, a federal entity charged with promoting Mexican exports around the world and attracting foreign direct investment to Mexico. Through ProMexico, federal and state government efforts as well as related private-sector activities work to harmonize programs, strategies, and resources for common objectives, while supporting the globalization of MexicoQs economy. While not solely geared toward small- and medium-sized enterprises, ProMexico works in concert with the Secretariat of EconomyQs Subsecretariat for small- and

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medium-Sized Businesses. As ProMexico develops it will also seek to incorporate export promotion assistance programs from other government departments, including farmers assistance programs currently managed by the Secretariat of Agriculture and Fisheries.

Creating Jobs By Improving Competitiveness

¶12. (U) President Calderon has publicly stressed that creating jobs in Mexico requires urgent action to improve the competitiveness of MexicoQs economy, especially given increased exports from China and India. In February 2008, the Secretariat of Economy announced a series of measures to increase competitiveness. The measures include elimination or reduction of more than 6,000 outdated tariffs and import duties on goods that are no longer made in Mexico and that raise input costs for other Mexican industries, simplification of import procedures, strengthening of the automobile and information technology sectors, fostering software development, and simplification of import procedures for the maquila and manufacturing industries. Congress authorized USD 128 million to implement this program.

¶13. (U) Recognizing that there were many cumbersome customs

procedures that prevented micro- and small- and medium-sized enterprises from participating in foreign trade, on March 31, 2008, the Secretariat of the Economy issued a decree eliminating the most burdensome customs procedures as of April 14. The decree also announced that the Secretariat of Economy and Secretariat of Finance will take

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further actions to simplify customs and foreign trade procedures, including reviewing and eliminating control measures that increase process time and costs; and reviewing, reducing or eliminating non-tariff restrictions; and simplifying administrative procedures.

¶14. (U) Other measures taken by the Calderon Administration to improve competitiveness include a series of measures to reduce the cost of doing business by reducing the time to open a new business, lowering industrial electricity rates during peak hours, strengthening development banks, and fostering more competition in Liquefied Petroleum (LP) gas distribution. To promote further progress, in 2007 the Calderon Administration launched a major effort through the OECD, using an OECD model developed by Australia to reduce over-regulation of the economy. Calderon directed his ministries to QdredgeQ through all government regulations in order to eliminate those that are no longer necessary or that unduly hinder business. Recognizing that much of the over-regulation of business occurs at the state and municipal level, in 2008 Calderon convinced MexicoQs state governors to participate in the program, gaining their commitment to review over 1,000 regulations using a version of the OECD model.

¶15. (U) CalderonQs job-creation strategy includes increasing credit to the private sector, particularly small- and medium-sized enterprises. His Administration has implemented financial sector reforms to facilitate lending to the private sector and increase competition in the banking sector. These measures include creating a Qniche bankQ license, encouraging microfinance institutions to become regulated and offer savings accounts in order to increase competition and facilitate access to safe savings services for low income people. Because a lack of competition keeps banking fees high and lending low, the Calderon Administration has also used anti-monopoly investigations to spur greater competition in the banking sector.

Further Economic Reform Needed to Create Jobs

¶16. (U) Much remains to be done, however, to arrest MexicoQs slipping global competitiveness and allow Mexico to achieve growth rates high enough to reduce widespread poverty. Although the IMF, World Bank, OECD, members of the Calderon Administration and much of the business community agree consistently on the structural reforms needed, the Mexican polity lacks sufficient consensus to achieve deeper structural reforms. Special business, union and other interests wanting to preserve economic privileges built up under 70 years of one-party rule, and a strong left-leaning opposition, still favor aspects of a more strongly state-managed economy such as private and government monopolies and oligopolies, and guaranteed benefits for workers in privileged industries.

¶17. (U) Special interests have blocked needed reforms throughout MexicoQs history. In a country where 60% of the people do not graduate high school, people throughout the country recognize the urgent need to reform the educational system. Calderon has spoken publicly about the need for a fundamental transformation of MexicoQs education system. Yet the politically powerful teachersQ union continues to

block reform. In a country with rapidly declining oil production, the employeesQ union of state oil monopoly PEMEX and related special interests, including populist leftist politicians, are vehemently condemning CalderonQs public calls for even modest energy reform. Companies say

a major barrier to expansion is the extremely high cost of electricity, which is provided by two highly inefficient government regional monopolies. Monopolies and oligopolies continue to dominate key sectors of the economy, keeping rates artificially high for telecommunications, cement, retail goods, medicines and other key items. While Calderon and Congress have implemented some measures to increase the effectiveness of the governmentQs competition watchdog agency COFECO, more significant progress has been blocked in the Congress. Companies and the World Bank have identified MexicoQs labor code as a major barrier to hiring and firing employees. Calderon has called for labor reform, but powerful unions and stiff political opposition will make it very difficult to achieve.

CalderonQs Pragmatic, Step-by-Step Strategy for Reform

¶18. (U) Learning from the failure of President Fox to pass the bold economic reforms he proposed, Calderon has taken a pragmatic, incremental approach. Prior to proposing reforms to Congress, he has directed key members of his Cabinet to negotiate intensely with special interests and the political opposition to ensure that reforms presented to Congress are politically feasible. CalderonQs strategy is to maintain his momentum by aiming for legislative battles he can win, building additional political capital for the tougher challenges ahead. This incremental strategy forces Calderon to compromise and wait on the deeper reforms needed to generate substantially higher growth rates.

¶19. (U) Given the fundamental need to avoid a return to economic crises of the past, the first economic reforms President Calderon put before Congress were to defuse potential threats to economic stability. After only a few months in office, Calderon got Congress to pass historic reform of the government pension system. This initiative, combined with President FoxQs reform of private pensions, has eliminated most of the threat that retirement systems in Mexico would become insolvent. There is still about 20% of MexicoQs pension system that needs reform in order to remain solvent over the long term, but these are the pensions of the oil company workers, social security institute employees and other powerful Mexican special interests.

¶20. (U) The strategy of proposing politically feasible reforms also allowed President Calderon to make progress in addressing MexicoQs urgent need to increase tax revenues now that production from MexicoQs main oil field (Cantarell) is declining as the field becomes exhausted. CalderonQs initial proposal would have generated about half of the tax revenue international and Mexican experts believe is needed. CalderonQs narrow political support in Congress has limited his ability to go after the tax privileges and exemptions built up during 70 years of one-party rule. This left Calderon the less attractive option of increasing taxes on the relatively small part of the potential tax base that already pays taxes. Required compromises with the business sector and opposition members of Congress further watered down the reform, generating an estimated 2.1% of GDP by 2012, which Mexican economic officials say is about a third of the additional tax revenue needed.

¶21. (U) So far, CalderonQs step-by-step pragmatic approach has made more progress in a year and a half than his predecessor made in six years, but it remains to be seen if he can tackle enough of MexicoQs special interests to create a vibrant, competitive, open internal economy that can create a sufficient number of jobs and properly educated labor force to alleviate widespread poverty.

The National Infrastructure Program

¶22. (U) In addition to reforms to make the economy more competitive, Calderon unveiled in July 2007 a record-setting program to develop MexicoQs long-neglected infrastructure. His National Infrastructure Plan seeks to reinvigorate MexicoQs infrastructure network, develop and connect the backward and/or isolated parts of Mexico (particularly in the poorer south) and boost the countryQs international competitiveness. The program envisages unprecedented increases in public and private investment in infrastructure (excluding hydrocarbons). The governmentQs goal for each year it is in office is to have public and private investment in infrastructure equal 4% of GDP; lead to the creation of 720,000 jobs; and add 0.6 percentage points to the countryQs economic growth. Specifically, the Plan seeks to modernize highway, airport, port, energy, and water infrastructure. It also aims to increase access to electric power, drinking water, and drainage services. Ultimately, the Calderon administration hopes the program will catapult Mexico into the world's top 20th percentile for infrastructure competitiveness by 2030.

¶23. (U) The Infrastructure Plan will be financed primarily by private money through public-private partnerships, particularly for investments in roads, airports and ports. Government funding will come from the 2007 tax reform and the National Infrastructure Fund (FONADIN). In addition, the government is currently in the process of tendering bids for several highways projects to obtain the needed resources for other Infrastructure Plan projects. The FONADIN will begin operating with USD 3.7 billion, but the government expects to be able to increase this figure to USD 25 billion within five years.

Anti-Poverty Programs

¶24. (U) Shortly after assuming office, Calderon gave his economic ministries specific objectives to develop the impoverished rural areas of Mexico, such as improving postal and telecommunications services. He has also expanded successful anti-poverty programs started under previous Administrations, launched new programs and sought to make existing programs more effective. Currently, the Secretariat of Social Development coordinates more than 16

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social programs with other government agencies. Among the most successful programs is QOportunidades.Q A program that existed before Calderon took office, it has become MexicoQs flagship social assistance program, which aims to help poor families invest in human capital. Oportunidades is designed to combat poverty by providing cash payments to families in exchange for regular school attendance and

health clinic visits. Oportunidades includes: grants for purchasing school materials; scholarships for high school and university students; basic health care services for the entire family; and monetary transfers for improved food consumption as well as nutritional supplements for young children and pregnant women. Oportunidades is credited with decreasing poverty and improving health and educational

attainment where it has been deployed. In response to CalderonQs request to expand the program, the Congress earmarked USD 3.5 billion for Oportunidades in the 2008 federal budget.

Support for Marginalized Areas

¶25. (U) During a tour of one of MexicoQs poorest states in 2007, Calderon announced the implementation of the Q100x100Q Program to improve the social and economic development of the countryQs poorest municipalities. The government has invested USD 525 million to date improving the infrastructure, education, housing, health, environmental conditions, and productivity (mainly in agriculture and handicrafts) of 125 municipalities.

¶26. (U) On March 13, 2008, Calderon launched a program aimed at creating jobs, attracting investment, and reducing inequality in the poorest areas of the country -- where 17 million Mexicans live. The program is a combination of efforts to link the governmentQs actions to alleviate poverty with its overall economic policy. Calderon has said the program will help investors in marginalized areas cut costs by 22%. The program includes government support for employers to reduce the cost of numerous payroll taxes including social security, health, and housing fees, and allows companies in marginalized areas to deduct the cost of the income tax and the Single Rate Corporate Tax (IETU). Under the program, Mexican government development banks will grant loans for the construction of plants, warehouses, and factories in marginalized areas, while the Labor Secretariat will grant scholarships for training programs.

First Job Program

¶27. (U) In March 2007, Calderon launched the QFirst Job ProgramQ (PPE) to help create jobs by granting a one-year subsidy on the social security fees employers have to pay to the Mexican Social Security Institute (IMSS) for newly hired employees. In 2007, Congress approved USD 275 million to cover subsidies to be granted during the first year of the programQs operation. Of this amount, only 16% was spent. For 2008, IMSS requested a budget of USD 138 million for the program, but resources were not allocated since it was determined that more than 80% of the previous yearQs resources had yet to be used. PPE did not have the impact the government had hoped for during its first year. Most of MexicoQs established labor unions view the program, as originally implemented, as a well-intentioned failure. In January 2008, officials made changes to the program to encourage participation, but it is too early to tell if these changes will make the program effective.

Health Insurance Programs

¶28. (U) The governmentQs health insurance programs are primarily designed to help those who cannot afford private healthcare. MexicoQs public healthcare system is divided into three types of coverage: 1) Coverage for workers in the formal private sector, and their families, which is managed by the Mexican Social Security Institute (IMSS); 2) coverage for workers in the public sector, and their families, which is managed by the Institute of Security and Social Services for Government Workers (ISSSTE); and 3) Popular Health Insurance, for workers outside the formal economy, and workers who do not receive regular salaries, and their families. Congress approved USD 2.4 billion in

2007 for the Popular Health Insurance program. (Comment: While the Popular Health Insurance Program does help meet the needs of the poorest Mexicans, it may unintentionally hurt the goal of moving people into decently paying formal sector jobs. The Governor of the Bank of Mexico has said publicly that the Popular Health Insurance program encourages people and micro-businesses not to join the formal economy, which also means they do not pay taxes or contribute to IMSS. Therefore, he has argued, the Popular Health Insurance Program drains both the federal budget and the health care system. End Comment)

¶29. (U) In his inauguration speech, Calderon announced a new program called QHealth Insurance for a New Generation -- a program that will cover medical expenses for children born on or after December 1, 2006. Last year this program covered 830,000 Mexicans. The governmentQs goal is to cover 100% of the population by 2010.

Agricultural and Rural Development Programs

¶30. (U) Although Calderon proposed only a 0.2% increase in the agricultural budget for 2008, he renewed several existing agricultural support programs and created a few new ones, including a forestry initiative that aims to revitalize MexicoQs ailing forestry sector. The cornerstone of these programs is the Concurrent Special Program (PEC), an umbrella funding mechanism for all GOM activities aimed at increasing agricultural production, stimulating rural economies, and improving rural livelihoods. While Calderon proposed only a 3.8% increase in funding, Congress increased funding by 15%, to USD 18.7 billion in 2008, more than double the funding first allocated to the PEC in 2000.(Comment: Congress increased overall spending on agriculture by 11% in 2008. End Comment) The most important program under the PEC is PROCAMPO (Direct Support to the Countryside Program). PROCAMPO is a system of direct payments to producers based on historic levels of area planted; it benefits 2.8 million farmers.

¶31. (U) In December 2007, Calderon attempted to improve support for impoverished farmers by changing the rules of operation for agricultural programs and reducing the number of such programs from 55 to 8, in order to get more of the money to actual needy farmers, rather than the middlemen and more prosperous farmers who had traditionally absorbed much of the governmentQs financial support for the

countryside. (Comment: This reform has generated considerable controversy as local government officials, organizations officially representing farmers, and the richest farmers have loudly protested being cut off from the agricultural subsidy train. End Comment)

¶32. (U) In addition to the PEC, in early 2007 the Calderon Administration announced the QGOM Actions to Promote the Corn, Dry Beans, Sugar Cane and Milk Competitiveness for the 2007-2012 Period.Q This initiative is not a funded program, but rather an effort to underscore the work that is currently being done, or in the planning stages, within the government to smooth the transition for the agricultural products that had their tariff and quota regimes lifted in January 2008 when the final phased provisions of the NAFTA took effect.

Economic Support Package

¶32. (U) Because over 80% of MexicoQs exports go to the United States, MexicoQs year-to-year economic performance has been closely linked to U.S. economic cycles. Seeking to minimize the effects of the current U.S. economic slowdown,

on March 3, 2008 President Calderon announced a series of measures to stimulate the economy. The package includes reductions in provisional income tax payments between March and June 2008; reductions in corporate payments to IMSS this year; the lowering of electricity tariffs; a USD 935 million increase in Pemex expenditures to upgrade and expand its pipeline network; USD 60 million of additional funds for the National Employment System; and simplification of administrative requirements for exporters and importers. The government says the measures will cost USD 5.6 billion.

Some Progress to Date

¶34. (U) Calderon has registered some impressive economic accomplishments since assuming office -- inflation is at a reasonable 4%, and foreign direct investment for 2007 was a record high USD 23.2 billion. Although he fell short of his stated goal of creating 1 million jobs a year, in 2007, 800,000 jobs were created in the formal sector of the economy, the second-highest number of jobs ever created in one year. CalderonQs strategy of carefully negotiating with the opposition and special interests, and tabling only politically feasible proposals, secured quick Congressional approval of the 2007 and 2008 federal budgets, and won passage of the unpopular but necessary government workers pension reform. His success in getting Congress to pass a tax reform to boost government revenues by 2.1% of GDP by 2012 has alleviated the immediate budget crunch caused by declining oil production, and freed up revenues for increased spending on social programs and infrastructure.

¶35. (U) Most of CalderonQs economic and social development programs are still too new to determine whether they will improve competitiveness or lift a significant number of people out of poverty. The Oportunidades program is a proven success. The First Job program has been re-worked after failing to achieve expected results in its first

year. The National Infrastructure Program is also just now getting underway, but if implemented on schedule has the potential to boost economic growth and create jobs.

U.S. Support for Mexican Development

¶36. (U) Our common border makes an increasingly prosperous Mexico especially important to the United States for several reasons including: it would reduce the incentive for poor Mexicans to immigrate illegally to the U.S. in search of good jobs; it would provide more formal sector jobs that would reduce the relative attractions of narco-trafficking and other forms of illegal commerce that have direct negative impacts on U.S. security and economic interests; it would expand opportunities for U.S. exporters of goods and services in what is already our second largest export market (Comment: U.S.-Mexico two-way trade in goods and services was over USD one billion per day in both 2006 and 2007); and it would strengthen the hand of those in Latin America who favor democratic politics and open economies rather than authoritarianism and populist economic policies. These considerations, and the fact that Mexico is the United StatesQ third-leading source of foreign oil, give the United States fundamental strategic interests in sustainable, broad-based economic development in Mexico.

¶37. (U) For this reason, the United States Government is actively supporting Mexicans across a wide spectrum of the above-mentioned development efforts. While our interventions on their own are probably not decisive, they are making real differences on the margins of indigenous

Mexican efforts and demonstrating in a very concrete fashion our commitment to our neighborQs success. The following examples are illustrative, but far from exhaustive, of the many ways the U.S. Government is promoting economic development in Mexico. USAID has programs in Mexico aimed at expanding access to credit among marginal populations, especially in areas of greatest illegal out-migration to the United States. USAID has programs to help increase overall economic competitiveness, including by reforming the antiquated judicial system and strengthening the federal competition watchdog agency. USDA is working on several projects to smooth the transition for Mexican corn and bean farmers to free trade. USDA is also engaged in a number of sanitary and phyto-sanitary programs that will help Mexico gain access to new markets, while also protecting U.S. agriculture by making the animal and plan health profiles of our two countries more similar. The Department of Commerce Commercial Service is actively supporting MexicoQs infrastructure expansion plans by supporting feasibility studies and assisting U.S. firms to participate in major infrastructure projects. The State Department is funding a capacity building program to improve MexicoQs protection of intellectual property rights. Treasury helps train its Mexican counterparts on best practices in improving tax collection, and combating money laundering. And, both the U.S. and Mexican governments are working together with the Canadian government to facilitate the flow of trade and investment among the three NAFTA partners and improve North AmericaQs overall global competitiveness via the various working groups of the Security and Prosperity Partnership of North

America (SPP).

Comment

¶38. (U) While many of the social development programs discussed above are substantive (e.g., Oportunidades and increased infrastructure spending), some are less efficient and/or more political in nature. Calderon undoubtedly realizes that he needs to be seen as doing something to boost employment and help Mexico weather a potential U.S. recession. While effective social programs play an important role in protecting societyQs most vulnerable, ultimately, MexicoQs ability to achieve the growth rates needed to create decently paying jobs and reduce poverty hinge on CalderonQs ability to tackle the economyQs structural shortcomings. The list of outstanding reforms is long, and includes: implementing energy reform to reduce the governmentQs dependence on oil-related revenues and stem a fall in oil production; addressing the detrimental impact monopolies and oligopolies have on competitiveness, entrepreneurship, and foreign investment; curbing labor rigidities and the rampant infringement of intellectual property rights, both of which negatively affect the business environment and job creation; and implementing educational reform to prepare people to take advantage of opportunities from NAFTA, globalization, and technological advances. Despite his successes so far, and ongoing U.S. support of his efforts, Calderon will be hard-pressed to forge consensus in any of these areas given the strong interests they threaten to undermine, and midterm Congressional elections scheduled for July 2009. End Comment.

GARZA